

Diversified culture and diversified meanings: The impact of microfinance in Koppal, India

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Introduction

This chapter aims to elaborate on the cultural embeddedness of meanings of money. It takes the specific context of a semi-arid district where security or insecurity of livelihood is influenced by the bio-cultural characteristics of the region and the socio-cultural and economic categorization of its inhabitants.

In Koppal district of North Karnataka, dry land agriculture is common, with less than 25 per cent of the land being irrigated. Agriculture and farm labour are the main source of income for most of the villagers in the district. However, groundwater levels are extremely low and most of the agricultural lands have become saline. People make high investments in bore wells and high input agriculture, indebting themselves in the hope of higher cash earnings. However, given an erratic rainfall pattern, returns are not assured. Industrial development in the region is also low, thereby leading to insecure livelihoods, leading to regular migration outside the district for survival.

Livelihood insecurity through ecological factors is deepened by the socio-economic and cultural organization in the villages. Households are divided by castes that are classified as higher (general) and lower (scheduled) castes with the latter facing social ostracization and disadvantages arising from mainly cultural practices. The schedule caste dwellings typically lie on the periphery of villages, and have fewer assets (for example, landholdings and cattle) and their residents usually have little formal education. They are often highly indebted, have very high incidents of school dropouts, and often the poorest families have one or two children engaged in bonded labour. In this scenario, poor people are only able to access credit from informal local sources at a very high cost (in terms of interest rate or bonded labour). The poorest are thus economically dependent on the higher castes, who are the landowners and credit-providers. Traditional credit service operates to keep the poorer households at the lowest level of the socio-cultural order in the villages.

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Recognizing the multiple disadvantages of poor rural households, the Indian government introduced low-cost subsidized credit through the national banking system, which targeted those below the poverty line. More recently, both NGOs and government have introduced the mechanism of self-help groups (SHGs) as channels of credit. These groups are organized on the basis of 'affinity' (Fernandez, 1998), thereby grouping together those who belong to similar castes, similar locality, and usually similar economic levels. The villages also have especially disadvantaged groups, for instance *devadasis* (women who are socially denied the right of marriage) and many SHGs seek to bring these culturally disadvantaged women together.

External facilitating agencies, such as NGOs, introduced the SHGs as another forum through which to access credit, in addition to banks, government departments and microfinance organizations (MFOs). The various sources offer money on different terms and also establish different relationships with the groups of borrowers. These variations in relationship generate learning processes through which different meanings are assigned to the different 'monies' (Zelizer, 1994). This chapter illustrates how different relationships signify these different meanings, which helps us to understand processes that influence the impact of microfinance initiatives.

An understanding of culturally embedded processes that generate differential local meaning is essential for understanding the impacts of microfinance. Attention to endogenous bio-cultural and social factors is imperative to appropriate design of external initiatives that help utilize traditionally provided spaces and at the same time help to overcome the constraints of traditional economic and cultural organizations.

Bio-cultural diversity and insecure livelihoods in Koppal

Koppal is a semi-arid and drought-prone district. Low rainfall has led to depletion of groundwater, further aggravated by the digging of deeper tube wells, from which only saline water is available. Land conditions in the villages are thus poor. Despite degraded land and soils, farmers try to access water through bore wells whenever they can afford the expenditure, and switch to a combination of food and cash crops to earn money. If they get lower yields, they stop growing commercial crops and switch back to food grains, as these also provide cattle fodder. However, usually by this time the soil has already lost its productivity due to salinity, so they do not get good yields, and eventually try to find labour elsewhere (Premchander et al, 2003).

There is little evidence that agriculture is profitable, yet land is a coveted asset and agriculture the main occupation. A Sampark¹⁴ staff elaborated:

Although agriculture is risky and appears unprofitable, it is the main occupation. What else do people have to do here? They want at least some land, so that they can cultivate. Farmers have a cultural and psychological attachment to farming; they do not like to leave their lands fallow. In the end, of course, they live on hope: every year, they hope for good rains.

¹⁴ Sampark is an NGO working in Koppal with 160 SHGs, supporting them on microcredit and livelihood-based activities.

So, while land is important for household food security, it is also important as a cultural symbol. Farmers realize that it does not give satisfactory incomes, as the villager Mariamma explains: 'By the time we pay off the loans for seeds and fertilizer and pesticides, there is nothing left to carry forward to the next year, and we need to borrow again for the next cycle'. Given that agricultural incomes are uncertain, poor households have a high incidence of migration for unskilled labour.

The prevalence of the *devadasi* system in Karnataka makes lower caste women very vulnerable, as this practice is in tandem with gender, social and cultural norms. The old custom of offering young girls to the service of village deities persists in many villages of North Karnataka. These girls were traditionally called *basavis*, and are officially known as *devadasis*. Originally female dancers and singers attached to temples, the term *devadasi* literally means 'female servants of the deity.' While *devadasis* are dedicated or 'married' to the temple deity and not allowed to marry mortal men, in fact the practice involves sexual partnerships outside marriage with men. Although the *devadasi* system is illegal, it continues due to a confluence of economic, social and cultural factors.

A *devadasi* has several disadvantages: belonging to a lower caste, parental dependency, being single parents themselves, and having no right to land or property of partners. In general, the support that *devadasi* women receive from their partners is nil or minimal, barring a few exceptions. Given the relative lack of assets of the *devadasi* households, this lack of support from male partners puts a disproportionate burden on such women.

Traditional credit services

Castes are the basis of social stratification in Koppal and classified as higher, middle and lower castes. The general castes are venerated as 'higher', while the scheduled castes¹⁵ are perceived as the 'lower' castes, are often ostracized. Information on Koppal district reveals significant overlap between caste and class categories, whereby the scheduled castes form the majority among the landless and casual wage earning categories. The lower castes and especially *devadasis*, are among the least-resourced households.

Given low rates of unemployment in agriculture, the poorer households depended on large farmers for wage labour. They also depended on them for consumption credit, thus creating an economic dependence that cultural inequalities exacerbated. These loans were at high interest rates and often involve labour bondage for the women or their children. Credit from the moneylenders is also expensive, and can be obtained only with the pledging of assets. As villager Lakshmvva reports:

We can get a loan from the 'shavkar' (moneylender) only if we pledge something, land, buffalo, gold or silver ornaments, and if none of these, at least a brass or copper vessel. If we do not pay in time, we lose the asset. He just

¹⁵ Scheduled castes and scheduled tribes are the castes that are included in Schedule of the Constitution, whereby reservations are granted to these castes for education, government services and more.

takes away the animal, or the jewellery, or the vessel. There is no mercy, this is the rule.”

Thus traditional informal credit, whether from landlords or individual moneylenders, is extortionary; women only used it in emergencies and not for productive purposes.

SHGs: A new platform for alternative credit

To counter some of the disadvantages of traditional sources of credit, both NGOs and government have SHGs.

An SHG is defined as ‘a group of people having a common goal of socio-economic sustainable development, discussing their problems and resolving it through appropriate participatory decision making’ (NABARD, 1998). In the context of microfinance, an SHG is formed by a group of 15–20 people (often women only), meeting once every week, fortnight or month. SHGs usually abide by some informal rules, then open a bank account in the group’s name, select two or three leaders and conduct savings and credit activities. They are characterized by homogeneity and affinity, commonality of interests, voluntarism and self-help, and participatory decision-making (MYRADA, 2001; NABARD, 1998; PRADAN, 1999). In most cases, the members pool funds to create a common fund, which may be used to access loans from this fund or from banks. In the latter case, the groups act as a collective guarantor for the loan (PRADAN, 1998). Thus, these culturally organized SHGs act as an alternative forum for the poor to access credit from various sources.

Different monies, different meanings

The most common form in which microfinance has been introduced in rural areas is through NGOs organizing women into SHGs and then linking them with banks for credit and with government for subsidies. In Koppal district, Sampark’s SHGs had three options for availing of formal microfinance:

- *Subsidized loans* provided by banks under government schemes that target the poor. Subsidized loans carry subsidy on principal repayment, meaning that the clients pay back 50 per cent of the principal, and do not need to pay back the rest. Typically, subsidized microcredit is offered by both banks and government together, unsubsidized credit by regional rural banks (RRBs), and commercial credit by specialized NGOs.
- *Commercial loans* typically have a one-year repayment period and regular repayment instalments, per week or per month. The interest on commercial microfinance ranges from 18–24 per cent per year, or even higher when it is paid uniformly and does not reduce with the principal outstanding.
- *Unsubsidized loans* that require the full principal amount to be paid back with the interest rate being 10–13 per cent per annum. The repayment period ranges from one to three years, and the instalments can be at monthly or quarterly intervals.

The use and repayment of loans differs for these three different types of ‘monies’. One would expect that when the poor households get subsidies and have to repay only 50 per cent of the total amount given to them, they would repay the loans

due. The experience, however, is the opposite. Subsidised loans have very poor repayment rates. As subsidies are intended for poor households, women need to show their officially granted 'below poverty line cards' to qualify for these. As there are only a limited number of SHGs that can obtain subsidized credit every year, SHGs compete for this targeted credit. This creates premiums for the official sanction, and therefore costs are paid to government officers, bankers and often also to mediating NGOs to avail of the benefit. As a result of such corrupt practices, women receive only part of the loan due, and then consider it a 'benefit' they have received from the government, not as a loan to be repaid. As they have also already paid the costs for accessing these, they believe that they have no obligation to repay.

By contrast, commercial loans given by MFOs at high rates have a completely different meaning. These carry high interest costs and very rigid repayment schedules, usually weekly instalments. The women who have alternate sources of cash incomes are able to meet these repayment requirements. Poorer women have low and unstable incomes and are not willing to commit to uniform repayments. They usually invest in agriculture and dairy and both have cyclical cash flow patterns. Therefore poor women consider this money very expensive and do not avail of it. When 2,400 women in Sampark's SHGs in Koppal were offered commercial credit by an MFO, only 80 women took loans, and they too found it difficult to pay it back in uniform instalments spread over a year.

In this scenario, RRBs offer reasonably priced credit at an interest rate of 10–13 per cent per annum. They do not dictate its use and accept a longer repayment period of up to three years. Initially, women rejected this money just as they did credit on commercial terms. They only sought the subsidized money, which they did not see as repayable. Over time, however, a few SHGs experimented with RRB loans and found that when they repaid one loan, the bank was willing to extend another. This developed into a banker–client relationship that then offered an alternative to the traditional landlord. It created an opportunity for beneficial use of credit by poor women. Even as banks perceived that poor women could be good clients, women recognized that banks could be good and reliable lenders. Thus women began to value this relationship and it signified a completely different meaning for them compared to subsidized and commercial loans.

This analysis shows how money that is offered on different terms and through different processes creates differential meanings for women that then result in different behaviour with regard to loan use and repayment. Institutional delivery of microfinance needs to recognize the importance of trust and create long-term relationships before the poor are convinced about sustained access to loans and offer effective demand for credit.

Culturally appropriate credit

The introduction of SHGs as forums for women has created new socio-economic spaces that have led to several economic benefits including increased earnings, reduced indebtedness, reduced dependence on landlords, and decrease in bonded labour. Women are able to negotiate better positions within their households, and at the village level. They enjoy client status with banks, and experience increased respect

from officials. The introduction of credit through SHGs has enabled meeting individual aspirations, expression of emotions and improved self-esteem. These positive impacts, evident at the individual, family and community levels, are proof of the SHGs' role in creating social capital.

This building of social capital takes place through social learning processes in SHGs. It is a trial and error process through which women learn. The learning processes are not always linear or beneficial. Most groups experience conflicts, leadership struggles and inappropriate money management, and the process of resolving these conflicts creates the synergy for women to come together in a more cohesive manner. These conflicts and their resolution are culturally embedded, and therefore quite different across SHGs comprising of different castes and economic backgrounds. The manner in which these processes can be supported, monitored, evaluated and enhanced needs to be viewed from a learning perspective. There is a need for the evolution of a system suited to women's context-specific needs and preferences, rather than the general application of externally devised 'best practices'.

The formation of 'homogenous' groups on the basis of castes and gender reinforces the low status of the group members, for example, *devadasis*. Such homogenous composition has some benefits but it also has major limitations, namely, it is difficult to break out of the positioning at the lowest rung of the socio-economic-cultural ladder. At the same time, microfinance, by offering access to credit, creates new opportunities for women not only to improve their earnings but also to create social and economic linkages. These in turn could enable a break from traditional caste groupings, thus creating new forms of emergent social capital. Sampark enabled such augmentation of social capital by conducting capacity building workshops for women, and by linking the groups to banks.

Thus, different sources offer money on different terms and also signify different relationship with the groups. These variations in relationships generate learning process through which different meanings are assigned to the different monies. This chapter illustrates how different relationships signify these different meanings, which helps us to understand processes that influence the impact of microfinance initiatives. Therefore an understanding of culturally embedded processes that generate differential local meaning is essential to understanding inputs of microfinance. Attention to endogenous bio-cultural and social factors is imperative to design external initiatives that traditionally provided spaces can utilize and, at the same time, imperative to develop our understanding of how traditional economic and cultural organizations can overcome the constraints they face.

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